

Auditor-General of South Africa

uMngeni Municipality -
Audit report 2016-17

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on uMngeni Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the uMngeni Municipality set out on pages ... to ... , which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the uMngeni Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Reserves - Revaluation reserve and housing operating account

3. I was unable to obtain sufficient appropriate audit evidence for the revaluation reserve and housing operating account disclosed in note 14 and 15 to the financial statements as the municipality did not maintain accurate and complete records to support these amounts. I was unable to confirm these reserves by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the revaluation reserve and housing operating account stated at R127,47 million and R15,11 million respectively, in the financial statements.

Context for the opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
5. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses – trade debtors

8. As disclosed in note 31 to the financial statements, material losses amounting to R8,43 million (2015-16: R21,94 million) were incurred as a result of a write-off of irrecoverable trade debtors.

Material losses – electricity

9. As disclosed in note 24 to the financial statements, material electricity distribution losses of R73,44 million (2015-16: R43,57 million) were incurred which represent 75% (2016: 52%) of total electricity purchased. The losses are as a result of unauthorised consumption and tampering and other technical losses.

Other matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of MFMA, DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
13. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development objective presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
17. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice for the basic service delivery development objective on pages x-x presented in the annual performance report of the municipality for the year ended 30 June 2017.
19. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development objective.

Other matter

21. I draw attention to the matter below.

Achievement of planned targets

22. The annual performance report on pages xx to xx includes information on the achievement of planned targets for the year and explanations are provided for the underachievement of a number of targets.

Report on audit of compliance with legislation

Introduction and scope

23. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
24. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected but the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

26. Goods and services with a transaction value below of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).

Expenditure management

27. Effective steps were not taken to prevent irregular expenditure amounting to R1,106 million as disclosed in note 46 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the non-compliance with Municipal Supply Chain Management Regulations, 2005.

Consequence management

28. Irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

29. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the mayor's foreword, the accounting officer's report and the audit committee's report. The other information does not include the financial statements, the auditor's report and the selected development objective presented in the annual performance report that have been specifically reported in the auditor's report.
30. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
31. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
32. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate; however, if it is corrected this will not be necessary.

Internal control deficiencies

33. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon.
34. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and findings on compliance with legislation included in this report.

Leadership

35. Leadership did not adequately oversee financial reporting and compliance with legislation. In this regard, leadership did not ensure that effective measures were taken to address previous findings to support the achievement of credible reporting and compliance with legislative requirements. This was due to staff not fully understanding the requirements of the financial reporting framework and measures not being implemented to ensure compliance with legislation.

Financial management

36. Systems and controls were not designed in a manner that would prevent, detect and address risks that had an impact on financial and compliance reporting. In this regard, management did not ensure that regular, accurate and complete financial reports that were supported and evidenced by credible information were prepared.

Governance

37. The internal audit and audit committee could not exercise their oversight responsibility as a result of insufficient resources in the internal audit unit which compromised the quality of the annual financial statements.

Other reports

38. I draw attention to the following engagement conducted by various parties that had, or could have an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
39. The forensic audit unit of the provincial department of Cooperative Governance and Traditional Affairs is investigating various allegations reported to them, covering the period 2015/16, into maladministration, fraud and corruption. The status of these allegations is still in progress at the date of this report.

40. A forensic investigation was conducted by a private company at the request of the municipality, into allegations of theft covering the period 2013-2014 to 2015-2016. The investigation has been finalised and five cashiers were found guilty during a disciplinary hearing. During the hearing three of the cashiers resigned. The municipality is attending to the arbitration for the remaining two cashiers at the date of this report.

Auditor-General

Pietermaritzburg

30 November 2017



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development objective and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the uMngeni Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.